Supreme Court, U.S.
FILED
AUG 2 1985
JOSEPH F. SPANIOL, JR.
CLERK

No. 85-32

IN THE

Supreme Court of the United States

OCTOBER TERM, 1985

C & C METAL PRODUCTS CORP. and DEFIANCE BUTTON MACHINE COMPANY, INC.,

Petitioners,

– against –

DEFIANCE BUTTON MACHINE COMPANY,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SECOND CIRCUIT

RESPONDENT'S BRIEF IN OPPOSITION

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QUESTION PRESENTED

Did the Court of Appeals properly hold that Respondent had not abandoned its trademark and trade name "DEFIANCE", and that Petitioner had infringed Respondent's rights in said trademark and trade name?

PARTIES TO THE PROCEEDING BELOW

C & C Metal Products Corp. and Defiance Button Machine Company, Inc. ("Defendants-Appellees") and Defiance Button Machine Company ("Plaintiff-Appellant") were the parties to the proceeding in the Court whose judgment is sought to be reviewed.

The following entities are affiliates and/or subsidiaries of Respondent: Handy Button of New York Inc. and Handy Button Machine Company.

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C & C METAL PRODUCTS CORP. and
DEFIANCE BUTTON MACHINE COMPANY, INC.,

Petitioners,

v.

DEFIANCE BUTTON MACHINE COMPANY,

Respondent.

RESPONDENT'S BRIEF IN OPPOSITION

OPINIONS BELOW

The opinion of the Court of Appeals is reported at 759 F.2d 1059 (2nd Cir. 1985) and appears in Petitioners' Appendix A.

The opinions of the District Court are unreported and appear in Petitioners' Appendices B and C.

JURISDICTION

The jurisdictional requisites are adequately set forth in the Petition.

STATEMENT OF THE CASE

The facts of this case are essentially as set forth in the Petition at pages 4 through 11. However, certain critical facts which are detailed herein have been omitted from the recitation or taken out of context.

Respondent, Defiance Button Machine Company ("Defiance-NY") has been in operation for almost 100 years and has always used the DEFIANCE trademark on all of its products, product containers, letterheads, boxing labels, boxes and invoices. Additionally, a distinctive logo was also used and the trade name Defiance Button Machine Company appeared

on all letterheads, invoices, etc. In building-up its business, Defiance-NY invested considerable time, effort, and money in promoting its trade name and trademark DEFIANCE and hence as found by both the District Court and the Court of Appeals, said name developed an excellent reputation in the market place and substantial good-will became attached to the business associated therewith. (App., 3).

Through circumstances beyond the control of Defiance-NY, it was forced to sell, at auction, its inventory and equipment. However, Defiance-NY's trademark, trade name, good-will, customer lists, accounts receivable, and the building were expressly exempted from the sale. At the conclusion of the auction sale, Bernard Chalfin, Vice President of Petitioner C & C Metal Products Corp. ("C & C") offered $10,000 for the trade

name, customer lists etc. However, that sale was not consummated.

Immediately after failing in its attempt to purchase the DEFIANCE trademark and trade name, C & C caused Petitioner Defiance Button Machine Company Inc. ("Defiance-NJ") to be incorporated. In addition to this infringing use of the DEFIANCE trademark and trade name, the Petitioners printed and used letterheads identical to that used by Defiance-NY, except for the address, and used the fraudulent and misleading phrase "Predecessor established 1886". Additionally, Defiance-NJ caused the publication of misleading articles which implied that it was the successor in interest to Defiance-NY. (App., 6-7).

Subsequent to the auction sale, Defiance-NY decided to resume business under its own name, acting as independent purchaser for resale to the same trade

under its DEFIANCE trademark goods of the same quality it had previously manufactured and sold. Defiance-NY continued to look for purchasers of its stock so that it could continue these operations. In December, 1982, three months after the auction, the company received an offer from Handy Button to purchase its outstanding stock. Negotiations followed and on April 13, 1983 an agreement was reached between the parties for the sale of stock of the company at a price substantially in excess of the offer of $10,000. The agreement was blocked, due to circumstances not within the control of Defiance-NY. Court approval was sought so that the agreement could be completed. In the interim, this action was instituted to protect the remaining assets of the corporation, including its trademarks and trade name.

On May 18, 1984, after the necessary

Court approval, the stock of the corporation was sold to Handy. As soon as that sale was complete, Defiance-NY began to initiate operations to sell and offer for sale goods under its DEFIANCE mark by setting up telephone lines, preparing notices to the trade, and contacting customers.

Defiance-NY always intended to and did resume operations. Additionally, the parts that Defiance-NY obtains from other suppliers are fully equivalent to those which it formerly sold. Customers cannot distinguish between these parts. They are interchangeable. (App., 3).

As found by the Court of Appeals and the District Court, Defiance-NY never intended to abandon its trademark and trade name DEFIANCE (App., 15). As found by the Court of Appeals, the DEFIANCE mark and name never lost its significance as an indicator of origin

in Defiance-NY. (App., 17).

REASONS WHY THE WRIT SHOULD BE DENIED

This case presents no issues worthy of certiorari.

This is an ordinary trademark infringement case in which Petitioner asks this Court to overturn a sound decision of the Second Circuit based on and supported by the evidence. The Second Circuit decision and the issues do not warrant the excerise of this Court's discretionary review power.

The Court of Appeals decision that: (a) Respondent Defiance-NY did not abandon its trademark and trade name and, (b) that the Petitioners' herein infringed said trademark and trade name follows directly from the application of clear statutory language and is based on well-settled legal principals. Contrary to the Petitioners' allegations, the Appellate Court's decision does not create a

conflict between Federal Courts on any issues. Further, the decision of the Court of Appeals is not inconsistant with, and, in fact, is in accord with decisions of other circuits.

Most importantly, the legal issues in this case are not of such importance as to warrant the grant of Petitioners' writ. This is hardly a case which involves matters of great and general public importance. Contrary to what Petitioner has stated, this case does not involve issues which will significantly affect the public or its reliance on trademarks to indicate the quality or source of goods being purchased.

I. THE DECISION OF THE COURT OF APPEALS CORRECTLY INTERPRETS 15 U.S.C. §1127(b)

The Court of Appeals adopted the lower court's Finding of Fact that Respondent Defiance-NY never intended to abandon its

trademark. Despite this Finding, the District Court had found that Defiance-NY, by its course of conduct, caused its mark to "lose it's significance as an indication of origin" within the meaning of 15 U.S.C. §1127(b). The Court of Appeals correctly reversed the District Court's misapplication of §1127(b), and said determination by the Court of Appeals is in conformance with both the Trademark Laws of the United States and the decisions thereunder.

The legislative history of 15 U.S.C. §1127 makes it clear that subsection (b) deals with generic marks. This was recognized in The Wall Paper Manufacturers Limited v. Crown Wall Covering Corporation, 680 F.2d 755 (C.C.P.A. 1982) where the Court of Customs and Patent Appeals noted that subsection (b) applies to marks becoming generic terms. In analyzing subsection (b), the Court of Customs and Patent Appeals stated, at footnote 19,

> From the legislative history it is evident that abandonment under part (b) was principally intended to encompass acts of omission or commission by the registrant which resulted in the mark becoming a generic term. See e.g. Hearing on H.R. 102, H.R. 5461 and S. 895 before the Subcom on Trademarks of the House Committee on Patent, 77th Congress 1st Session 104-115 (1941).

The Court of Appeals correctly held that the DEFIANCE mark always functioned as a trademark and that it never lost its ability to signify an indication of origin. A mark recognized in the trade for almost 100 years, a mark that the infringing party offered Ten Thousand ($10,000) Dollars to purchase and which was eventually purchased for Fifty Thousand ($50,000) Dollars, does not become generic or loss its significance as an indication of origin as soon as certain physical assets of the company which owns the mark are sold, particularly where the company intends to continue the sale of like goods.

With respect to subsection (b), either a term functions as a trademark (an indication of origin) or it does not (loses significance as an indication of origin) - the term does not (under this section of the Lanham Act) lose its significance as an indication of origin with respect to Defiance-NY and maintain its significance as an indication of origin for Petitioner Defiance Button Machine Company, Inc. ("Defiance-NJ"). The failure to recognize this creates a flaw in Petitioner's logic insofar as Petitioner suggests that by overturning the Court of Appeals decision in this case, this Court would champion the public interest by ensuring that the public can rely on a trademark as an indication of quality and source. How is the public better protected by a policy which would permit a new company to trade on the reputation of an old, respected company, as did Petitioner

Defiance-NJ? It is not.

Even if a party abandons a mark for a non-use under subsection (a) of §1127, or voluntarily cancels that mark, the mark does not lose its significance as an indication of origin. If the party or another party resumes use of the mark it is still a valid indication of source of origin - it has not become generic. Both the legislative history and all of the cases decided under this subsection clearly show that the subsection is meant to cover a situation where the public preceives the mark as being generic or some other situation has arisen which makes the term incapable of indicating origin.

Clearly, the Court of Appeals decision was in conformity with all other decisions interpreting 15 U.S.C. §1127(b).

II. THE DECISION OF THE COURT OF APPEALS IS CONSISTENT WITH DECISIONS IN OTHER CIRCUITS

A review of the case law reveals no case where a conclusion of legal abandonment under subsection (b) was predicated on a period of non-use. All of the cases involving subsection (b) or 15 U.S.C. §1127 are cases in which the mark has become generic, cases where there has been uncontrolled licensing or cases where there has been an assignment without a transfer of good-will. See: Heaton Distributing Company, Inc. v. Union Tankcar Co., 387 F.2d 477 (8th Cir. 1967); United States Jaycees v. Philadelphia Jaycees, 639 F.2d 134 (3rd Cir. 1981).

1 J.T. McCarthy Trademark and Unfair Competition (2d ed. 1984) includes a section (17:2) on Abandonment which distinguishes between abandonment through "non-intentional" acts covered by subsection (b) of §1127 and abandonment by non-use with intent to abandon covered by subsection (a) of §1127. The non-intentional

acts which can result in abandonment are: uncontrolled licensing of a mark, assignment of a mark without good-will, and a trademark becoming generic. As the Court of Appeals properly found, none of these acts are applicable to the instant case.

In the instant case, as in Guilding Eyes For The Blind v. Guild Dog Foundation For The Blind, 384 F.2d 1016 (C.C.P.A. 1967), the only possible facts which could support a conclusion of abandonment are facts showing non-use. In the instant case, although there was non-use, there was no intent not to resume use and hence no abandonment under subsection (a). If this non-use does not support abandonment under subsection (a) it cannot support a finding of abandonment under subsection (b).

The Court of Appeals decision is in conformance with the current view, and is in accord with the other Circuits that a trademark can be validly and effectively

transferred without the transfer of tangible assets, if the transferee continues to sell goods of the same quality and nature normally associated with the mark. A function of a trademark is to denote uniform quality of goods and that quality must be maintained to avoid deception of the public. 1 J.T. McCarthy, supra at section 18.7 (1984); The Money Store v. Harriscorp Finance Inc., 689 F.2d 666 (7th Cir. 1982); VISA USA Inc. v. Burmingham Trust National Bank, 696 F.2d 1371 (Fed. Cir. 1982); and Sterling Brewers Inc. v. Schenley Industries Inc., 441 F.2d 675 (C.C.P.A. 1971). Uniform quality does not require the use of the same equipment.

The Court of Appeals correctly found that the goodwill symbolized by the DEFIANCE mark is synonymous with the reputation and this decision is in accord with previous court decisions. See, Budget Systems, Inc. v. Budget Loan and

Finance Plan, 129 U.S.P.Q. 201, 203 (Utah SC 1961) (not otherwise reported); Levitt Corp. v. Levitt, 593 F.2d 463, 468 (2d Cir. 1979).

It is for this reason that marks and the goodwill symbolized thereby can be sold or assigned separately and apart from the physical assets of a business or any product associated therewith. Hy-Cross Hatchery Inc. v. Osborne, 303 F.2d 947 (C.C.P.A. 1962). As stated in the Sterling Brewers case, there is always residual goodwill associated with a mark. In a case as the instant one, where Respondent has continuously attempted to sell and finally has sold its trademark, trade name, and goodwill for a substantial sum of money, there is no doubt that the Court of Appeals was correct in determining that the goodwill associated with the DEFIANCE mark was retained after the sale of the physical assets.

III. THE COURT OF APPEALS NEVER SANCTIONED THE TRANSFER OF TRADEMARK RIGHTS IN GROSS

Among other aspects of its buckshot approach, Petitioner argues that the Court of Appeals has sanctioned the transfer of a mark "in gross" (i.e., without the attendant goodwill). (See p. 36 of Petitioners' Brief). Petitioner arrives at this conclusion by pure bootstrap logic by first eliminating the fact of Respondent's intent to resume operations, and then finding the goodwill had been dissipated. However, the Second Circuit never stated, nor did it find, that the mark could be transferred in gross. In fact, just the opposite was true. The Court specifically determined that goodwill attached to the mark. (App., 16-17).

CONCLUSION

This case was correctly decided by the Court of Appeals for the Second Circuit. The decision does not conflict with

decisions of this Court or with decisions of other Circuits. For the reasons set forth above, Respondent respectfully requests that this Court deny the Petition for a Writ of Certiorari.

Respectfully submitted,

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Dated: New York, New York

July , 1985